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FM AMEMBASSY NDJAMENA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3539
INFO RUEHUJA/AMEMBASSY ABUJA PRIORITY 1041
RUEHKH/AMEMBASSY KHARTOUM PRIORITY 0136
RUEHLC/AMEMBASSY LIBREVILLE PRIORITY 0794
RUEHLO/AMEMBASSY LONDON PRIORITY 1283
RUEHNM/AMEMBASSY NIAMEY PRIORITY 2588
RUEHFR/AMEMBASSY PARIS PRIORITY 1671
RUEHYD/AMEMBASSY YAOUNDE PRIORITY 1070
RHEBAAA/USDOE WASHDC PRIORITY
RUCPDOC/USDOC WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASH DC PRIORITY

UNCLAS NDJAMENA 000543

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LONDON AND PARIS FOR AFRICAWATCHERS; TREASURY FOR OTA,
ENERGY FOR GPERSON AND CGAY

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TAGS: ECON EFIN ENRG EPET PGOV PREL CD
SUBJECT: CHAD: A $500 MILLION DECISION

REF: NDJAMENA 540

¶1. (SBU) Summary: Possibly piqued that World Bank President Wolfowitz did not contact him after the World Bank/IMF visit, and evidently needing cash immediately, President Deby has ordered Esso to stop production Tuesday, April 18 at 1 p.m. unless it pays Chad's royalties into the Chadian Treasury. Esso is preparing to stop production (including laying off 2,000 local employees) and will respond to the GOC that they will neither pay the royalties into a GOC account, nor loan the GOC money to pay off its World Bank loans (which the GOC had also proposed). With the GOC set to lose some $500 million in income taxes next year (assuming price of oil at $60 barrel), their decision can only be described as shortsighted, particularly in view of the fact that the royalties accrued will shortly be sufficient to repay the loans, were the GOC to choose to do so. This threat is that of a regime desperately in need of quick cash and oblivious to the damage it could cause its tax receipts and its reputation. End summary.

¶2. (SBU) In a meeting with Ambassador Wall April 15, Esso Director Ron Royal reported that on the evening of Friday April 14, he had been called into the Prime Minister's office. The Prime Minister informed Royal that the GOC was unhappy that the royalties were still blocked, despite the visit of the World Bank team (reftel). Since the problem had not been solved, the government would order production shut down unless the consortium deposited royalties directly into the GOC Treasury. Royal informed the Prime Minister that 1) this was not a reasonable request, given that in much of the world a three day weekend was about to start; 2) that if the GOC assumed oil prices at $60/barrel through 2006, with 160,000 barrels of oil flowing a day, they were saying goodbye to $500 million in income taxes next year; and 3) what did the government have in mind as the trip wire that would permit production to start up again?

¶3. (SBU) Pursuing the last question, Royal queried the Prime Minister whether re-payment of the World Bank loans (thereby eliminating the GOC's contractual obligation to the oil revenue management scheme) would be the trip wire. If the World Bank loans were re-paid, Esso would be free to pay royalties directly into the GOC account. And since the amount that Esso was holding in royalties (some $100 million

counting the April payment plus $25 million blocked in the Citibank account) was about enough to repay the loans, why didn't the GOC simply ask the oil consortium to repay the World Bank loan for Chad, thereby freeing up future revenues to go directly to the GOC account?

¶4. (SBU) Royal reported that the Prime Minister responded only that he was not there to discuss the issue, only to inform Esso of the GOC's decision. Later that evening at the office of the Petroleum Minister, Royal was told by Petroleum Minister Nasser that the Prime Minister had called the President after his meeting with Royal, and that the President was agreeable in principle with Royal's proposition that the loan be repaid -- but that the GOC wanted Esso to lend them the money for the repayment (i.e., so they would be able to access the cash immediately). Royal noted that this was from a government that had two weeks earlier received $85 million in income taxes from the Consortium.

¶5. (SBU) Royal reported on a subsequent conversation with Finance Minister Tolli, who indicated discomfort with the decision, and raised the possibility of postponing the shutdown. It appeared that President Deby had been extremely unhappy with the fact that a week had passed since the World Bank/IMF team's visit, and World Bank President Wolfowitz had still not called President Deby.

¶6. (SBU) Royal said that Esso was preparing a formal response to the government to be delivered Monday. They would not pay the government as this would violate their contractual obligations to deposit the money in the escrow account, and they would certainly not loan the GOC money. They are preparing for shutdown and notifying employees. If shutdown proceeds, they will release 2,000 local staff. Shutdown itself will take as little as two hours for the full shutdown. However, re-starting production to current levels would take a couple of months. Staff members present pointed out that the fact of shutdown (with implications for the ships lined up for the next three months to receive the oil) would make Doba crude "unreliable crude" and increase the discount. With only 150 million barrels pumped to date of the estimated 800 million in discovered reserves, Royal said that there was still good reason to restart production when possible. But the bottom line was that this would not happen until the World Bank loan was paid off. A production hiatus in Chad would not have a negligible effect on ExxonMobil's overall revenues, given the small size of Chadian production.

¶7. (SBU) Ambassador Wall explored with Royal the possibility that the shutdown could be postponed. Royal agreed that "everyone loses" in the shutdown. He floated the idea that Wolfowitz could ask President Deby to reconsider the timing, possibly allowing Finance Minister Tolli an opportunity to discuss the issue over the Bank/Fund spring meetings.

Comment:

¶8. (SBU) Pride and obstinacy, plus a need for lots of quick cash appear to be driving this decision. A delay in the shutdown decision might provide an opportunity for cooler heads in the GOC to prevail. We are not convinced that President Deby would relent, but with the alternative being a decision so disastrous to all parties (but most importantly to Chad), it is worth pursuing.
WALL